

Message Text

PAGE 01 DACCA 04589 160336Z

13

ACTION TRSE-00

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TO SECSTATE WASHDC 1199

AMEMBASSY MANILA

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PASS USABD

E.O. 11652: N/A

TAGS: EAID, EFIN, BG

SUBJECT: ABD LOANS AND TA GRANT FOR BANGLADESH WEST ZONE POWER PROJECT

REF: MANILA 11275 B. DACCA 3737

SUMMARY - ABD FINANCING FOR POWER PROJECT APPEARS ACCEPTABLE, THOUGH ESTIMATE OF POWER LOAD GROWTH FOR AREA TO BE SERVED MAY BE OPTIMISTIC AND PROBLEM GAS-TURBINE FUEL SUPPLY MAY BE UNDER-RATED. AS WITH CHITTAGONG PORT LOAN ALSO UNDER CONSIDERATION (SEPT), EMBASSY'S MAJOR RESERVATION IS ON ALLOCATION ORDINARY CAPITAL RESOURCES AND SPECIAL FUND RESOURCES. US BIDDING ON POWER PLANT PRECLUDED SINCE SPECIAL FUND-DERIVED GRANT ELEMENT IN POWER LOAN IS PUT HIGH AT 74 PER CENT. THIS AVERAGED OUT TO DESIRED GRANT 64 PER CENT ELEMENT FOR ABD LOANS TO BANGLADESH BY VERY LOW GRANT ELEMENT IN PORT LOAN (49 PER CENT). NO JUSTIFICATION GIVEN FOR ASSIGNMENTS HIGH AND LOW GRANT PERCENTAGE TO RESPECTIVE LOANS. IF PERCENTAGES COULD BE EXCHANGED AND ADJUSTED TO MAINTAIN 64 PER CENT AVERAGE, US BID - BY GENERAL ELECTRIC, LIMITED OFFICIAL USE
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PAGE 02 DACCA 04589 160336Z

WHICH REPORTEDLY MUCH BETTER THAN JAPANESE COMPETITION - MIGHT BE PERMITTED.

1. MISSION CONCURS IN USABD SUPPORT OF PROPOSED \$10.45 MILLION

LINE OF CREDIT FOR 40 MW GAS-TURBINE POWER PLANT AT BHERAMARA AND \$250,000 TA GRANT TO ASSIST BANGLADESH POWER DEVELOPMENT BOARD (BPDB). FAVORABLE NAC ACTION RECOMMENDED.

2. LIKE USADB, WE HAVE RESERVATIONS RE WEAK FINANCIAL STRUCTURE BPDB AND FINANCIAL FORECAST THIS PROJECT. RE FORMER, WE FEEL ABD MUST MAKE SURE BPDB IMPLEMENTS RECOMMENDATIONS OF THE ADVISORS PROVIDED UNDER LOAN FOR REFORM OF FINANCIAL AND ACCOUNTING SYSTEMS.

3. RE FINANCIAL FORECAST, IN PARTICULAR WOULD QUESTION "PENT-UP DEMAND" IN WEST ZONE. EXISTING DEMAND NOT BEING MET FROM AVAILABLE POWER GENERATION AND TRANSMISSION FACILITIES. SOME MAJOR INDUSTRIAL UNITS NEARING COMPLETION (PAGE 23) AND PLANS EXIST FOR FURTHER PROJECTS WEST ZONE. HOWEVER FIVE YEAR PLAN (FY 1973 - 77) HAS NOT YET BEEN FINALIZED, NOR HAS INDUSTRIAL INVESTMENT POLICY BEEN ENUNCIATED FOR PUBLIC SECTOR. PRIVATE SECTOR FAIRLY RESTRICTED IN NEW SOCIALIST ORDER HERE (DACCA A-20, 9/15/73 NOTAL). BANGLADESH TODAY PRESENTS SCENE OF NEAR-TOTAL INVESTMENT STAGNATION. WE WOULD HOPE FOR A TURN-AROUND IN ECONOMY BUT ARE GENERALLY NOT SANGUINE. ESTIMATE IN LOAN PAPER OF LOAD GROWTH IN WEST ZONE GRID REACHING MAXIMUM DEMAND OF 145 MW BY END 1980 (PAGE 24) MAY BE OPTIMISTIC, THOUGH ADMITTEDLY MUCH LOWER THAN BPDB'S FORECAST OF DEMAND OF OVER 200 MW.

4. LOAN PAPER PLACES PROPER EMPHASIS ON TRANSPORT AND POWER SUPPLY PROBLEM. THIS IS INDEED SERIOUS AND WILL REQUIRE STRICT ADHERENCE BY BPDB TO COMMITMENT TO MAKE ARRANGEMENTS FOR SUPPLY OF GAS-TURBINE FUEL TO POWER PROJECT. THIS PAST YEAR KHULNA POWER STATIONS HAVE BEEN FORCED TO CLOSE OR OPERATE AT WELL BELOW CAPACITY BECAUSE OF LACK OF NAPHTHA DELIVERED FROM CHITTAGONG REFINERY. ORDINARILY SURPLUS IN NAPHTHA, REFINERY WAS TO EXPORT

TO INDIA UNDER 1972-73 TRADE ARRANGEMENT BUT BECAUSE OF CRUDE IMPORT AND OPERATION PROBLEMS COULD NOT DO SO OR EVEN MEET FULL LOCAL DEMAND. PREEMPTION OF INLAND WATER TRANSPORT FOR FOODGRAINS, ETC., ALSO RESTRICTED SUPPLY NAPHTHA TO KHULNA. ULTIMATELY FUEL HAD TO BE BROUGHT IN FROM INDIA. SITUATION AT BHERAMARA COULD LIMITED OFFICIAL USE
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PAGE 03 DACCA 04589 160336Z

BE AS BAD OR WORSE, SINCE EVEN FARTHER THAN KHULNA FROM CHITTAGONG. CONSIDERATION MAY HAVE TO BE GIVEN, DESPITE BANGLADESH/NATIONALIST RELUCTANCE TO DO SO, TO IMPORT FUEL FOR BHERAMARA FROM CALCUTTA TO SOUTH-WEST, HALF THE DISTANCE FROM BHERAMARA WHICH CHITTAGONG IS TO SOUTH-EAST.

5. MAJOR RESERVATION ABOUT PROJECT LOAN AGAIN RELATES TO ALLOCATION FINANCING BETWEEN ORDINARY CAPITAL RESOURCES (OCR), WHERE US CAN BID, AND SPECIAL FUND RESOURCES (SFR), WHERE IT CANNOT. SIMILAR OBJECTIONS RAISED TO ADB LOAN/GRANT FOR CHITTAGONG PORT DEVELOPMENT (SEE SEPTEL). THAT LINE OF CREDIT HAS GRANT ELEMENT OF 49 PER CENT WHILE POWER PROJECT LINE OF CREDIT HAS GRANT ELEMENT

OF 74 PER CENT. NO JUSTIFICATION GIVEN AS TO WHY FORMER HAS THE SMALLER GRANT ELEMENT AND LATTER THE LARGER. POWER PROJECT LOAN PAPER STATES (PAGE 5) "PROCUREMENT CONSIDERATIONS AND THAT INDIVISIBILITY OF THE MAJOR PROJECT COMPONENT, THE GAS TURBINE STATION, HAS MEANT THAT THE BLEND OF SPECIAL AND ORDINARY FUNDS REQUIRED RESULTS IN GRANT ELEMENT OF 74 PER CENT." IN ORDER MAINTAIN DESIRED OVERALL GRANT ELEMENT OF 64 PER CENT FOR BANGLADESH, CHITTAGONG PORT PROJECT LOAN CUT BACK TO 49 PER CENT.

6. ARGUMENT RE INDIVISIBILITY OF MAJOR PROJECT COMPONENT CAN BE REVERSED TO JUSTIFY ASSIGNMENT OF VERY SMALL GRANT ELEMENT TO POWER PROJECT LOAN AND COMPENSATINGLY LARGE GRANT ELEMENT TO PORT PROJECT.

7. AS REPORTED REF B, GENERAL ELECTRIC CAN OFFER APPROPRIATE GAS-TURBINE POWER PLANT ON TURNKEY BASIS FOR RELATIVELY LOW AMOUNT WITH DELIVERY IN SIX MONTHS, WHILE JAPANESE COMPETITION REPORTEDLY OFFERING A THIRD HIGHER PRICE, WITH 100 PER CENT SLOWER DELIVERY. TIME FACTOR IMPORTANT CONSIDERATION; NOTE STATEMENT PAGE 27 THAT POWER PLANT SHOULD BE COMMISSIONED BEFORE END 1974.

8. EMBASSY CONTINUES TO BELIEVE THAT BIG-TICKET ITEMS IN ABD PROJECTS WITH MIXED SFR-ORC FINANCING SHOULD IF AT ALL POSSIBLE BE COVERED BY OCR COMPONENT, IN ORDER TO PERMIT WIDER RANGE OF BIDS AND THEREIN POSSIBLY LOWER COSTING. IN PRESENT CASE WE HAVE INDICATIONS THAT GE CAN DELIVER CHEAPER AND SOONER. EXCHANGE OF BIG GRANT COMPONENT IN POWER PROJECT FOR SMALL GRANT COMPONENT IN PORT PROJECT WOULD SEEM TO US EQUITABLE AND TO BEST ADVANTAGE
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PAGE 04 DACCA 04589 160336Z

OF CREDITORS AND BANK. OPENING BIDDING TO COMPANIES FROM COUNTRIES NOT CONTRIBUTING YET TO SPECIAL FUND WOULD NOT PRECLUDE BIDS FROM CONTRIBUTING COUNTRIES.

9. EMBASSY FEELS THAT IF PRESENT PROJECT LOAN JUSTIFIABLE, BEST POSSIBLE OFFER SHOULD BE SOLICITED TO SUPPLY GAS-TURBINE STATION. IF AMERICAN SOURCING TO BE DENIED BY ASSIGNMENT LARGER GRANT ELEMENT TO THE PRESENT PROJECT RATHER THAN PORT PROJECT (WHICH NOT AS DOMINATED BY SINGLE BIG ITEM), THEN WE MUST QUESTION WHETHER POWER STATION LOAN FUNDS BEING PUT TO BEST USE.

10. EMBASSY RECOGNIZED THAT PROSPECT OF EXCHANGE OF PERCENTAGE

GRANT ELEMENTS BETWEEN TWO PROJECTS PROBABLY VERY DIM. HOWEVER, BELIEVE THAT POINT SHOULD BE MADE THAT TO INSURE BEST PROCUREMENT, OCR RESOURCES WHEREVER POSSIBLE SHOULD BE DRAWN ON FOR EXPENSIVE COMPONENTS OF LIMITED NUMBER, AND SFR FOR LESS COSTLY COMPONENTS OF GREATER NUMBER.

11. RE REFERENCES IN LOAN PAPER TO AID FINANCING OF OTHER POWER

PROJECTS (PAGES 17, 64 AND 84), AID IS DEFINITELY NOT IN PROCESS OF RENEGOTIATION LOAN FOR KARNAFULI THIRD UNIT. BPDB MAY BE DOING SO WITH ANOTHER DONER BUT WE ARE NOT AWARE OF THIS. UNDER AID REHABILITATION PROGRAM WE HAVE FINANCED COLLECTON AND STORAGE OF KARNAFULI THIRD UNIT EQUIPMENT, FIFTY PER CENT OF WHICH HAD BEEN DIVERTED DURING WAR TO KARACHI AND RANGOON.

12. FIVE AID LOANS SHOWN ON PAGE 84 BY NUMBER ONE, TWO AND FOUR WERE COMPLETED DURING PAKISTAN PERIOD. ANY UNUTILIZED FUNDS WERE DE-OBLIGATED. ITEMS THREE AND FIVE WERE PARTIALLY DISBURSED. WORK ON BOTH THESE STOPPED WHEN THE LIBERATION STRUGGLE BEGAN. ITEM THREE IS COMMENTED ON ABOVE. ITEM FIVE IS BEING COMPLETED UNDER THE REHABILITATION GRANT PROGRAM. IT WOULD APPEAR LAST COLUMN REFLECTS LOAN REPAYMENT RATHER THAN DISBURSEMENT.
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